

**State of Hawaii**  
**Department of Health**

**Internal Control and Business Issues Report**  
**June 30, 2005**

**PricewaterhouseCoopers LLP**

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June 15, 2006

The Auditor  
State of Hawaii

In planning and performing our audit of the basic financial statements of the State of Hawaii, Department of Health (the "Department") as of and for the year ended June 30, 2005, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on internal control. However, we noted certain matters involving internal control and its operation, and are submitting for your consideration related observations and recommendations designed to help the Department improve internal control and achieve operational efficiencies.

This letter is intended solely for the information and use of the State Auditor and management of the Department and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

*PricewaterhouseCoopers LLP*

DMT:cjk

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**No. 05-01: Review of FAMIS Reconciliations**

During our audit of the Beverage Deposit Container Special Fund (the "Fund"), we noted that revenue reconciliations between Quickbooks, which the Fund uses for internal accounting purposes, and the State of Hawaii's Financial Accounting and Management Information System ("FAMIS") were not consistently reviewed and approved by an appropriate member of management.

Without timely and consistent review and approval, there is a risk that material financial statement misstatements may not be identified in a timely manner.

**Recommendation**

We recommend that the Department ensure that revenue reconciliations are reviewed by the preparer's supervisor to ensure accurate and timely preparation.

**No. 05-02: Purchase Card Controls**

During our testing of purchase card ("P-card") transaction controls, we noted the following:

- The Pre-audit Department did not consistently evidence when P-card transactions were reviewed or who performed the review. Timely review of transactions helps to ensure that unauthorized transactions are identified in a timely manner.
- P-card Purchase Authorization Forms were not consistently dated to indicate that program supervisors authorized the transactions prior to the actual purchase. Purchases made without prior approval could lead to unauthorized transactions.
- While we did not note any instances of inappropriate or unauthorized transactions, the Department does not have a formal process for dealing with unauthorized P-card transactions. Perceived control weaknesses could lead to unauthorized transactions.

**Recommendation**

We recommend that the Department tighten its current policies and procedures over P-card transactions to address the observations noted above.

**No. 05-03: Accrued Vacation Records**

Each division within the Department is responsible for tracking and maintaining its own vacation and sick leave records and reporting year-end balances to the Administrative Services Office using Form DPS-7, Employee Leave Record. During our testing of accrued vacation balances, we noted instances where the vacation balances for certain divisions reported on the DPS-7 did not agree to the Annual Vacation and Sick Leave Accrual Report used by the fiscal office to calculate the Department's year-end vacation accrual.

Discrepancies between the Annual Vacation and Sick Leave Accrual Report and division details could result in a material misstatement of the Department's financial statements and lead to employee disputes.

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**Recommendation**

We recommend that the Department reconcile the "Annual Vacation and Sick Leave Accrual Report" to each division's DPS-7 to ensure that the year-end vacation accrual is properly reported. The reconciliation should be reviewed and approved by management of the fiscal office and division supervisors.